



TM

24 January 2024

## Axis Bank

### Deposit mobilization key constraint to growth and margins

#### RESULT UPDATE

**Sector:** Banks **Rating:** BUY  
**CMP:** Rs 1,082 **Target Price:** Rs 1,270

#### Stock Info

Sensex/Nifty	70,370 / 21,238
Bloomberg	AXSB IN
Equity shares	3080mn
52-wk High/Low	Rs 1151/ 814
Face value	Rs 2
M-Cap	Rs 3,345bn/ USD 41bn
3-m Avg volume	USD 115mn

#### Financial Snapshot (Rs bn)

Y/E March	FY24E	FY25E	FY26E
NII	498	549	622
PPP	358	417	493
PAT	239	256	301
EPS (Rs)	78	83	98
EPS Gr. (%)	149	7	17
BV/Sh (Rs)	478	556	648
Adj. BV/Sh (Rs)	470	546	636

#### Ratios

NIM (%)	3.8	3.6	3.6
C/I ratio (%)	49.7	48.3	47.0
RoA (%)	1.7	1.6	1.7
RoE (%)	17.6	16.1	16.2
Payout (%)	5.00	5.00	5.00

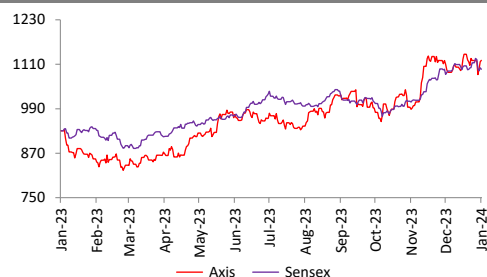
#### Valuations

P/E (x)	14.46	13.49	11.49
P/BV (x)	2.35	2.02	1.73
P/Adj. BV	2.39	2.05	1.76
Div. Yield (%)	0.35	0.37	0.44

#### Shareholding pattern (%)

	Jun'23	Sep'23	Dec'23
Promoter	8	8	8
-Pledged	-	-	-
FII	52	53	55
DII	30	29	29
Others	10	10	8

#### Stock Performance



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Axis Bank reported 3QFY24 earnings of Rs60.7bn (+4% qoq & yoy). Excluding AIF provisions of Rs1.8bn, the earnings were a beat to estimates mainly led by higher other income and lower provisions. Key highlights were: 1) Net advances growth of 4% qoq, 22% yoy (YTD annualised 14%) was led by 4-5% qoq growth in retail and SME while corporate growth was subdued at 1.3% qoq 2) While deposit growth was strong at 5.2% qoq, 18.5% yoy, it was led by high-cost bulk deposits which increased by 21% qoq 3) NIM declined to 4.01% (-10bps qoq) as yield increase of 9bps qoq was more than offset by cost of fund increase of 18bps qoq 4) Other income increased 10% qoq due to trading gains of Rs.3bn in 3Q vs loss of 1bn in 2QFY24. 5) opex/assets ratio remained stable qoq at 2.6% 6) Gross slippage ratio increased to 1.66% vs 1.52% in 2QFY24. However, net slippage ratio declined to 0.5% vs 0.6% in 2QFY24 due to upgrade of a large corporate restructured account and some other recoveries 7) CET- 1, including profit for 9MFY24, declined to 13.71% (vs 14.56% as of Sep'23) due to 70bps negative impact from regulatory changes partly offset by c.21bps organic net capital accretion. Further, the bank also has 43bps additional cushion from Rs.50bn of COVID provisions and does not foresee requirement for further capital raise. 8) Annualized RoA at 1.8% and RoE at 18.5% for 9MFY24.

We rollover forecasts to Mar-26 and maintain our BUY rating with updated TP of Rs 1,270 (vs Rs1,125) valuing the bank at 2x Mar'26 Adj BVPS (earlier 1.85x) taking into account the lower risk free rates. While we continue to expect higher slippage ratio and credit costs over the forecast period (averaging 191bps and 97bps respectively), we adjust our near-term credit cost estimates (to 63bps) to reflect the current provision run-rate. With a credit-deposit ratio of 93%, strong deposit mobilization would be key to meet management's stated guidance of advances growth of 400-600bps above sector average for FY24 and FY25. We lower our NIM forecasts for FY25-26E, to factor the impact of increased competition from banks targeting to reduce CDR via much reduced incremental CDRs. The stock currently trades at FY25 PE of 13x for FY24-26 EPS CAGR of 12%

**Advances growth led by retail and SME loans, corporate growth was muted:** Net advances growth of 4% qoq, 22% yoy (YTD annualised 14%) was led by 4-5% qoq growth in retail and SME while corporate growth was subdued at 1.3% qoq. Within retail, unsecured segments (credit cards, personal loans) contributed to 29% of incremental retail credit (vs 19% share in outstanding credit), 17-19% contribution from retail agri and LAP and 8-12% contribution from home loans, auto loans and small business loans. Share of unsecured loans has increased by 54bps qoq to 19.2%. LAP saw a strong growth of 9% qoq, 38% yoy on the back of transformation projects undertaken to improve TAT and sourcing in the last 12 months. Home loans, which constitute 30% of the retail book, saw a muted growth of 2.3% qoq, 9% yoy with the trend likely to continue given the company's focus to improve the mix towards higher yielding products in the face of rising deposit costs. Going forward, growth is likely to remain soft given elevated CD ratio of 92.8% and deposit sourcing challenges. **We trim our growth estimates factoring in limitations from high CDR.**

**Deposit mobilization remains a key constraint to loan growth:** Given the elevated CD ratio and the regulatory push to lower CD ratios, deposit growth was strong at 5.2% qoq, 18.5% yoy. However, **it was led by high-cost bulk deposits which increased by 21% qoq and contributed to 86% of incremental deposits on MEB basis and 65% on QAB basis.** Consequently, average CASA ratio declined to 42% (-222bps qoq). However, LCR was maintained at 118%. With deposit growth being soft and CD ratio elevated, deposit mobilization at favorable rates remains key to achieving the aspirational growth target of 400-600bps higher than industry growth (ex-merger) for FY24. The bank expects to add 400 branches in FY24 with 350 additions in 9MFY24. Sweating the existing and new branch network would be critical to deposit mobilization. NIM declined to 4.01% (-10bps qoq) as yield increase of 9bps qoq was more than offset by cost of fund increase of 18bps qoq. Margins are expected to remain under pressure as deposit cost normalization will continue for next 2-3 quarters with offsets available from improving retail mix and higher SME share.

**Operating profit aided by higher other income. Opex/assets stable qoq:** While NII was in-line with expectations, operating profit growth was supported by higher other income which increased 10% qoq due to trading gains of Rs.3bn in 3Q vs loss of 1bn in 2Q. Cost to income at 49.5% in 3QFY24 declined 79bps qoq due to one-off charges in 2QFY24. However, opex/assets ratio remained stable qoq at 2.6% with the bank to continue to invest in technology and growth on the back of benign credit costs. However, it also remains focused on maintaining its 1.8-2% RoA trajectory despite NIM pressures and opex investments.

**Higher gross slippage offset by a key corporate account upgrade:** Gross slippage ratio increased to 1.66% vs 1.52% in 2QFY24. However, net slippage ratio declined to 0.5% vs 0.6% in 2QFY24 due to upgrade of a large corporate restructured account. As a result, net credit costs declined to 30bps vs 46bps in 2QFY24. GNPA declined to 1.6% (-15bp qoq) and NNPA was stable qoq at 0.4%. The bank also provided Rs1.82bn towards AIF related investments on the back of new regulatory guidelines. However, going forward, credit costs are likely to inch up due to normalisation in recoveries from written off accounts and potential for slippages from increasing unsecured mix which has increased by 150bps YTD and will increase further due to the company's strategy to increase higher margin unsecured product mix to offset funding cost pressures.

**Valuation and recommendation:** We rollover forecasts to Mar-26 and maintain our BUY rating with TP of Rs 1,270 (vs 1,125) valuing the bank at 2x Mar'26 Adj BVPS. While we continue to expect higher slippage ratio and credit costs over the forecast period, we adjust our near-term credit cost estimates to reflect the current provision run-rate. With a credit-deposit ratio of 93%, strong deposit mobilization would be key to meet management's stated guidance of advances growth of 400-600bps above sector average for FY24 and FY25. We lower our NIM forecasts for FY25-26E, to factor the impact of increased competition from banks targeting to reduce CDR via much reduced incremental CDRs. The stock currently trades at FY25 PE of 13x for FY24-26 EPS CAGR of 12%

**Key takeaways from 3QFY24 earnings call:****Improving advances mix aiding granularity in the loan book**

- Average LCR during Q3FY24 was 118%, outflow rates improved 600 bps over last 2 years
- Retail disbursements grew 10% qoq, 47% yoy. Unsecured disbursements declined to 22% of retail disbursements vs 25% in 1HFY24
- Disbursement growth: Home Loans 37% yoy, small business and auto loans 33% yoy, retail agri business 46% yoy, personal loans 61% yoy.
- Loan book composition: repo linked (48% vs 46% qoq), MCLR (15% vs 17% qoq), fixed rate (31% stable qoq). Higher mix of repo linked loans was due to higher share of SME in the loan mix and repricing in the corporate book.
- 33% of credit card sourcing in 9MFY24 was through KTB (Known to bank) customers vs 39% qoq. This was led by higher growth through digital card partnerships
- On QAB basis, total deposits growth was 4% qoq with retail term deposit growth of 3% qoq, SA growth was flat qoq and CA growth was 4% qoq. Non-Retail TD increased by 12% qoq

**Other Income:**

- While retail fees increased by 6% qoq, Corporate fee growth was flat qoq.
- Retail cards and payments fees increased by 10% qoq

**Asset quality: Improving asset quality trends**

- Gross Slippages for the quarter were Rs.37bn with Rs33.8bn in retail, Rs21.4bn in Consumer banking and Rs.0.9bn in wholesale banking group
- The bank will continue to hold COVID provisions of Rs50bn for the remainder of the year.
- Further, the bank also holds cumulative provisions (standard + additional other than NPA) of Rs119bn. These cumulative provisions translate to standard assets coverage of 1.29% as of Dec'23
- On aggregate basis, total PCR (specific + standard + additional + COVID provisions) was at 153% of GNPA

**Regulatory impact:**

- The bank has increased pricing on incremental disbursements in personal loans and advances to NBFCs as a fallout of increase in risk weights
- All AIF investments are less than Rs0.5bn

**Exhibit 1: Quarterly performance**

P&L (INR, mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)
Interest income	2,79,611	2,22,264	26%	2,66,262	5%
Interest expenses	1,54,290	1,07,671	43%	1,43,116	8%
<b>NII</b>	<b>1,25,322</b>	<b>1,14,593</b>	<b>9%</b>	<b>1,23,146</b>	<b>2%</b>
Other income	55,548	46,654	19%	50,341	10%
<b>Operating income</b>	<b>1,80,870</b>	<b>1,61,248</b>	<b>12%</b>	<b>1,73,486</b>	<b>4%</b>
Operating expenses	89,457	68,473	31%	87,168	3%
- Staff expenses	27,113	22,811	19%	26,098	4%
<b>PPOP</b>	<b>91,412</b>	<b>92,775</b>	<b>-1%</b>	<b>86,319</b>	<b>6%</b>
Provisions	10,283	14,377	-28%	8,146	26%
<b>Profit before tax</b>	<b>81,129</b>	<b>78,398</b>	<b>3%</b>	<b>78,173</b>	<b>4%</b>
Taxes	20,418	19,867	3%	19,537	5%
<b>Profit after tax</b>	<b>60,711</b>	<b>58,531</b>	<b>4%</b>	<b>58,636</b>	<b>4%</b>
EPS	20	19	3%	19	3%
Key Ratios (%)	3QFY24	3QFY23	YoY (bps)	2QFY24	QoQ (bps)
Net Advances growth (YoY, %)	22.3%	14.6%	771 bp	22.8%	-44 bp
Net Advances growth (QoQ, %)	3.9%	4.3%	-38 bp	4.5%	-63 bp
Deposit growth (YoY, %)	18.5%	9.9%	856 bp	17.9%	63 bp
Deposit growth (QoQ, %)	5.2%	4.6%	56 bp	1.5%	369 bp
Avg. CASA Ratio	42.1%	44.5%	-239 bp	44.4%	-222 bp
CD Ratio	92.8%	89.8%	293 bp	93.9%	-113 bp
NIM (reported)	4.0%	4.3%	-25 bp	4.1%	-10 bp
Cost to Income	49.5%	42.5%	700 bp	50.2%	-79 bp
Credit costs	0.30%	0.7%	-42 bp	0.46%	-16 bp
GNPA (%)	1.6%	2.4%	-80 bp	1.7%	-15 bp
NNPA (%)	0.4%	0.5%	-11 bp	0.4%	0 bp
PCR (%)	77.8%	80.8%	-300 bp	79.5%	-165 bp
CAR	16.6%	19.5%	-288 bp	16.6%	6 bp
Tier-I	14.2%	16.2%	-197 bp	13.8%	38 bp

Source: Company, Systematix Institutional Research

**Exhibit 2: DuPont analysis**

Du Pont (% of average assets)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
<b>Net interest income</b>	<b>3.8%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.7%</b>
Other income	1.5%	1.5%	1.6%	1.5%	1.6%
<b>Total income</b>	<b>5.4%</b>	<b>5.2%</b>	<b>5.2%</b>	<b>5.3%</b>	<b>5.3%</b>
Operating expenses	2.3%	2.4%	2.5%	2.64%	2.61%
Employee expenses	0.8%	0.7%	0.8%	0.8%	0.8%
<b>PPOP</b>	<b>3.1%</b>	<b>2.9%</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.7%</b>
Provisions	0.5%	0.1%	0.3%	0.2%	0.3%
<b>PBT</b>	<b>2.6%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>
<b>PAT (RoAA)</b>	<b>1.9%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>
Leverage	9.4	9.9	10.2	9.8	9.7
<b>ROE</b>	<b>18.3%</b>	<b>21.1%</b>	<b>18.1%</b>	<b>17.4%</b>	<b>17.3%</b>

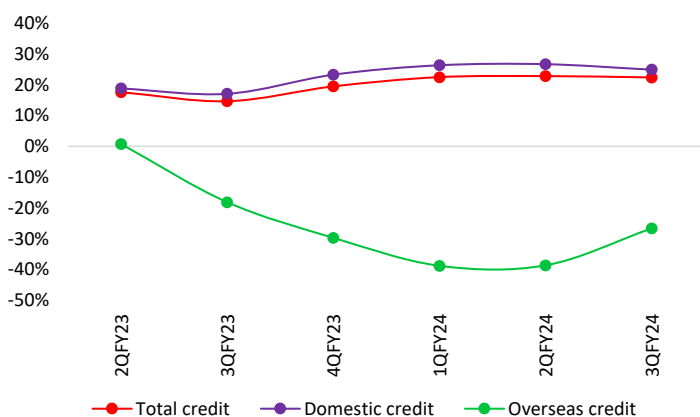
Source: Company, Systematix Institutional Research

## Exhibit 3: Earnings Revision

(INR, Mn)	FY24E			FY25E			FY26E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Advances	98,80,208	98,37,304	0.4%	1,13,63,885	1,13,79,459	-0.1%	1,30,69,644	1,31,56,786	-0.7%
% yoy growth	16.9	16.4	50 bps	15.0	15.7	-66 bps	15.0	15.6	-61 bps
Deposits	1,07,33,865	1,08,39,537	-1.0%	1,24,96,527	1,26,02,910	-0.8%	1,45,09,975	1,46,15,099	-0.7%
% yoy growth	13.4	14.5	-112 bps	16.4	16.3	15 bps	16.1	16.0	15 bps
NII	4,97,610	4,99,070	-0.3%	5,48,980	5,57,425	-1.5%	6,21,931	6,34,087	-1.9%
NIM (%)	3.75	3.77	-2 bps	3.63	3.71	-7 bps	3.61	3.70	-9 bps
Other income (ex trading income)	2,07,180	2,07,821	-0.3%	2,51,354	2,48,551	1.1%	3,00,707	2,97,385	1.1%
Operating expense	3,53,187	3,56,068	-0.8%	3,89,429	3,93,099	-0.9%	4,36,299	4,40,425	-0.9%
PPOP	3,58,103	3,56,323	0.5%	4,17,406	4,19,378	-0.5%	4,92,840	4,97,547	-0.9%
Provision	39,361	52,353	-24.8%	75,670	83,527	-9.4%	91,813	1,07,730	-14.8%
PAT	2,39,056	2,27,977	4.9%	2,56,302	2,51,888	1.8%	3,00,770	2,92,363	2.9%
EPS	78	74	4.6%	83	82	1.5%	98	95	2.6%
Adj. BVPS	470	467	0.5%	546	542	0.8%	636	629	1.2%

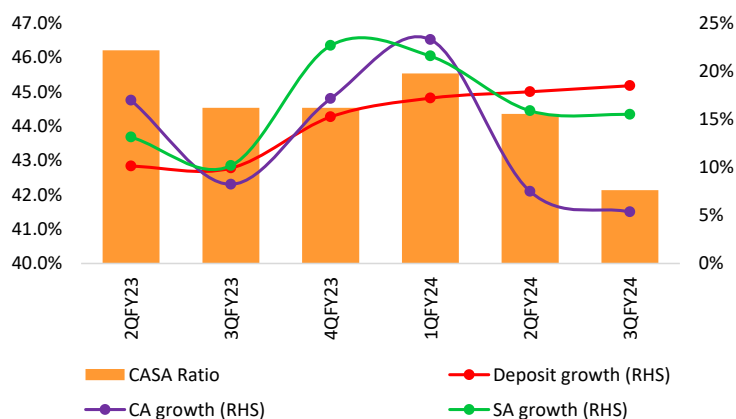
Source: Company, Systematix Institutional Research

## Exhibit 4: Credit growth was led by retail and SME credit



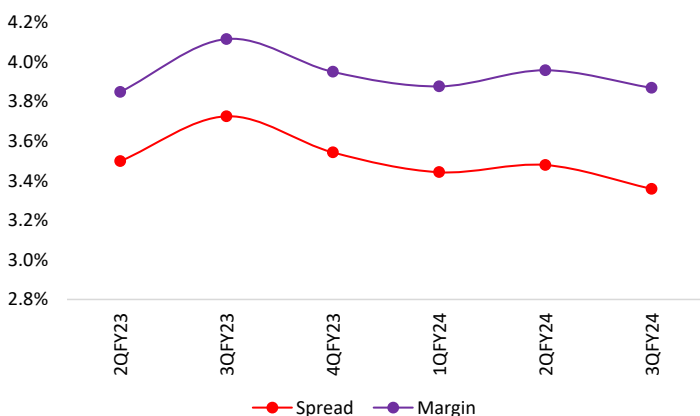
Source: Company, Systematix Institutional Research

## Exhibit 5: Deposit growth remains key focus point



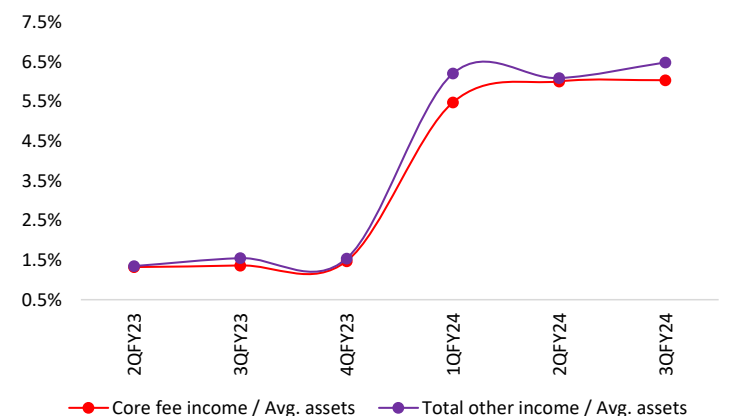
Source: Company, Systematix Institutional Research

## Exhibit 6: Margin decline due to higher cost of funds

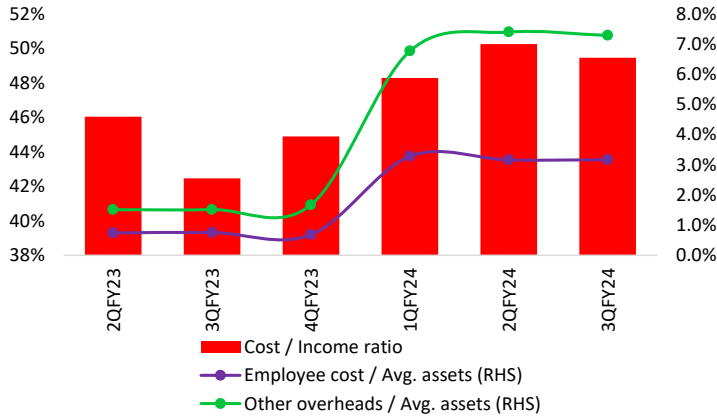


Source: Company, Systematix Institutional Research

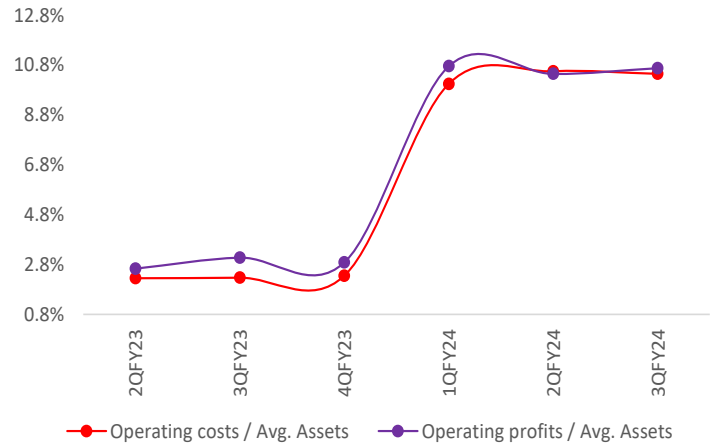
## Exhibit 7: Overall fee income aided by retail fee income growth



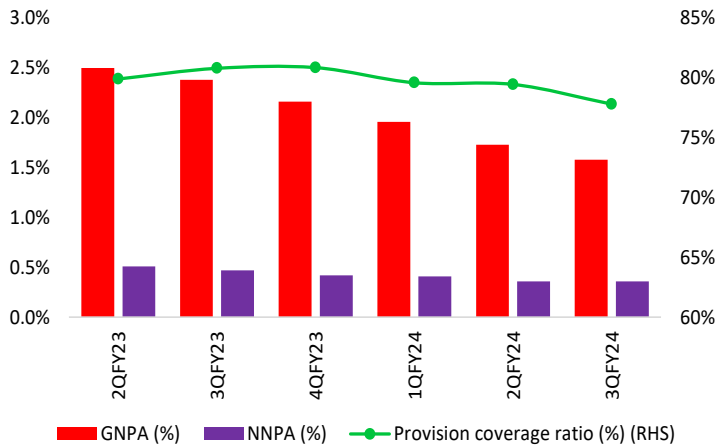
Source: Company, Systematix Institutional Research

**Exhibit 8: Cost/income ratio declined qoq due to one-off charges in 2QFY24**

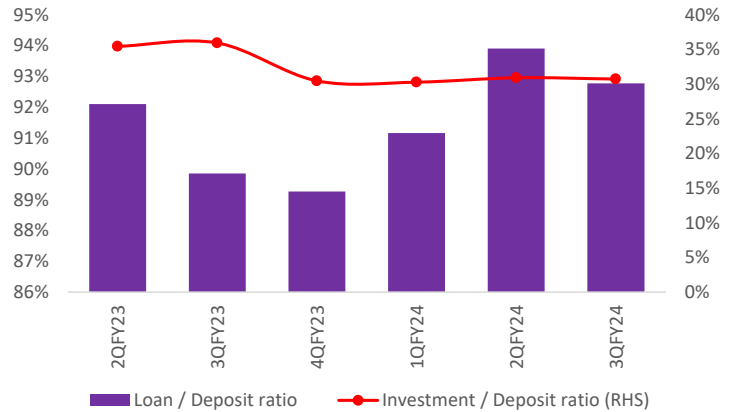
Source: Company, Systematix Institutional Research

**Exhibit 9: Net credit cost declined qoq on higher recoveries**

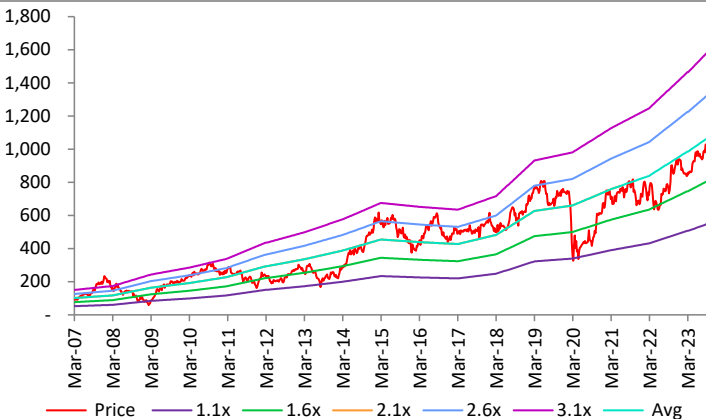
Source: Company, Systematix Institutional Research

**Exhibit 10: Asset quality remains stable**

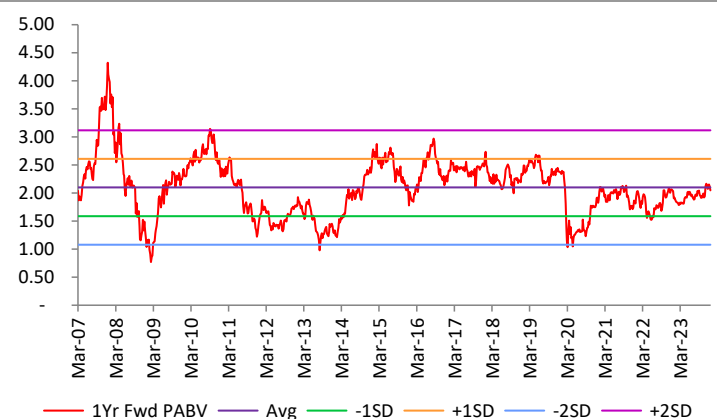
Source: Company, Systematix Institutional Research

**Exhibit 11: C-D ratio declined due to higher deposit (bulk deposit) mobilization**

Source: Company, Systematix Institutional Research

**Exhibit 12: 1-year forward P/ABV (x) trajectory**

Source: Company, Systematix Institutional Research

**Exhibit 13: 1-year forward P/ABV (x) near long term average**

Source: Company, Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	674	852	1100	1274	1437
<b>Interest Expenses</b>	<b>342</b>	<b>422</b>	<b>603</b>	<b>725</b>	<b>815</b>
Net Interest Income	331	429	498	549	622
Change (%)	13.31	29.62	15.87	10.32	13.29
Commission, Ex. & Br. Inc.	114	144	181	220	264
Add: Other income	39	21	33	38	43
<b>Net Income</b>	<b>484</b>	<b>594</b>	<b>711</b>	<b>807</b>	<b>929</b>
Change (%)	16.5	22.9	19.7	13.4	15.2
Operating Expenses	236	397	353	389	436
<b>Operating Profit</b>	<b>247</b>	<b>198</b>	<b>358</b>	<b>417</b>	<b>493</b>
Change (%)	7.0	(20.0)	80.9	16.6	18.1
Provisions	74	28	39	76	92
<b>PBT</b>	<b>174</b>	<b>169</b>	<b>319</b>	<b>342</b>	<b>401</b>
Tax	44	73	80	85	100
Tax Rate (%)	25.1	43.3	25.0	25.0	25.0
<b>PAT</b>	<b>130</b>	<b>96</b>	<b>239</b>	<b>256</b>	<b>301</b>
Change (%)	97.7	(26.2)	148.6	7.2	17.3
Proposed Dividend	3	3	12	13	15

Source: Company, Systematix Institutional Research

## Dupont

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	6.23	6.83	7.85	8.03	7.98
Interest Expended	3.17	3.39	4.30	4.57	4.53
<b>Net Interest Income</b>	<b>3.06</b>	<b>3.45</b>	<b>3.55</b>	<b>3.46</b>	<b>3.45</b>
Commission, Ex. & Br. Inc.	1.05	1.16	1.29	1.39	1.47
Other Fee Income	0.25	0.14	0.19	0.20	0.20
<b>Net Operating Income</b>	<b>4.37</b>	<b>4.74</b>	<b>5.03</b>	<b>5.05</b>	<b>5.12</b>
Profit on sale of investment	0.10	0.03	0.05	0.04	0.04
Net Income	4.47	4.77	5.08	5.09	5.16
Operating Expenses	2.18	3.18	2.52	2.46	2.42
<b>Operating Income</b>	<b>2.29</b>	<b>1.59</b>	<b>2.56</b>	<b>2.63</b>	<b>2.74</b>
Provisions	0.82	0.51	0.50	0.66	0.68
<b>PBT</b>	<b>1.47</b>	<b>1.08</b>	<b>2.05</b>	<b>1.97</b>	<b>2.05</b>
Tax	0.40	0.59	0.57	0.54	0.56
<b>PAT</b>	<b>1.20</b>	<b>0.77</b>	<b>1.71</b>	<b>1.62</b>	<b>1.67</b>
Leverage	10.0	10.4	10.3	9.9	9.7
<b>RoE</b>	<b>12.0</b>	<b>8.0</b>	<b>17.6</b>	<b>16.1</b>	<b>16.2</b>

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Capital	6	6	6	6	6
Reserves & Surplus	1144	1244	1467	1708	1994
<b>Net Worth</b>	<b>1152</b>	<b>1254</b>	<b>1481</b>	<b>1722</b>	<b>2007</b>
Change (%)	13.4	8.9	18.1	16.3	16.6
Deposits	8,217	9,469	10,734	12,497	14,510
Change (%)	17.7	15.2	13.4	16.4	16.1
CASA Ratio (%)	45.0	47.2	42.0	40.5	40.5
<b>Borrowings</b>	<b>1,851</b>	<b>1,910</b>	<b>2,075</b>	<b>2,020</b>	<b>1,968</b>
Other Liabilities	531	540	567	624	686
<b>Total Liabilities</b>	<b>11,752</b>	<b>13,173</b>	<b>14,857</b>	<b>16,862</b>	<b>19,171</b>
Change (%)	19.1	12.1	12.8	13.5	13.7
Investments	2,756	2,888	3,235	3,623	4,058
Cash & Bank balance	1,110	1,064	1,008	1,099	1,204
<b>Loans</b>	<b>7,077</b>	<b>8,453</b>	<b>9,880</b>	<b>11,364</b>	<b>13,070</b>
Change (%)	15.2	19.4	16.9	15.0	15.0
Fixed Assets	46	47	57	61	65
Other Assets	763	721	677	716	775
<b>Total Assets</b>	<b>11,752</b>	<b>13,173</b>	<b>14,857</b>	<b>16,862</b>	<b>19,171</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Spreads Analysis (%)</b>					
Yield on Advances	7.5	8.3	9.5	9.6	9.5
Yield on Earning Assets	6.7	7.3	8.3	8.4	8.4
Cost of Deposits	3.5	3.6	4.8	5.2	5.2
Cost of Funds	3.7	4.0	5.0	5.3	5.3
NIM	3.3	3.7	3.8	3.6	3.6
<b>Profitability Ratios (%)</b>					
Cost/Income	48.8	66.7	49.7	48.3	47.0
PPOP / Avg. assets	2.3	1.6	2.6	2.6	2.7
RoE	12.0	8.0	17.6	16.1	16.2
RoA	1.2	0.8	1.7	1.6	1.7
<b>Asset Quality (%)</b>					
GNPA (Rs bn)	218	186	152	185	223
NNPA (Rs bn)	55	36	34	41	49
GNPA	3.0	2.2	1.5	1.6	1.7
NNPA	0.8	0.4	0.3	0.4	0.4
PCR	74.7	80.9	77.8	77.8	77.8
<b>Capitalisation (%)</b>					
CAR	18.5	17.6	17.2	17.6	16.2
Tier I	16.3	14.6	16.0	16.5	15.6
Tier II	2.2	3.1	1.2	1.1	0.6
Average Leverage on Assets (x)	10.0	10.4	10.3	9.9	9.7
<b>Valuations</b>					
Book Value (Rs)	375	406	478	556	648
Adj. Book Value (Rs)	361	400	470	546	636
Price-BV (x)	2.99	2.76	2.35	2.02	1.73
Price-Adj. BV (x)	3.10	2.80	2.39	2.05	1.76
EPS (Rs)	42	31	78	83	98
EPS Growth (%)	92	(27)	149	7	17
Price-Earnings (x)	26.38	36.00	14.46	13.49	11.49
Dividend (Rs)	1	1	4	4	5
Dividend Yield (%)	0.09	0.09	0.35	0.37	0.44

Source: Company, Systematix Institutional Research



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